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DIRECTORATE OF INTELLIGENCE

1 July 1985

Japan: Reviewing Short-Term Trade Policy Options [redacted]

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Summary

Japanese trade policymakers are currently dividing their time between drawing up an action plan for liberalizing imports over the next three to five years and devising short-term measures to halt the growth of the trade surplus. Although several temporary measures are likely to be implemented during the summer, we believe voluntary export restraints (VERs) probably will form the centerpiece of Tokyo's efforts to placate foreign critics. [redacted]

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Temporary Trade Measures: Deja Vu?

Instead of focusing solely on medium-term plans to liberalize imports, Japanese bureaucrats and politicians have devoted an increasing amount of time to formulating temporary, reversible trade measures. In many ways, this exercise resembles similar activity preceding other trade packages. But we believe the new discussions about short-term trade measures are more likely to result in concrete--and bolder--measures than has been the case with past trial balloons.

This memorandum was prepared by [redacted] Northeast Asia Division, Office of East Asian Analysis. Information available as of 24 June 1985 was used in its preparation. Comments and questions are welcome and may be directed to the [redacted] Northeast Asia Division, OEA, [redacted] 25X1

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-- Japanese officials probably view short-term measures as a means of mollifying critics of the July action plan, which many in Tokyo are already predicting will disappoint the country's trading partners partly because it will not include any revision in import quotas.

-- Even bureaucrats who are more sanguine about the action plan's contents may support short-term measures. They may believe such measures would reduce trade friction long enough to let permanent liberalization begin to pay off in terms of a reduced surplus.

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As evaluation of policy options has proceeded, some choices--in particular, capital controls--have lost their luster. On the other hand, export restraint appears to be gaining support, although most officials in Tokyo recognize it does not address US demands for boosting Japanese imports.

-- Export restraint is being stressed at the expense of import promotion because the latter relies heavily on the willingness of private companies to obey administrative guidance. MITI's experience with a plan for Japan's top 60 exporters to boost imports reveals companies are reluctant to heed such guidance (see Tables 1 and 2).

-- The debate on what form export restraint should take--VERs or a tax on exports--grew more heated during June. According to press reports, by favoring VERs, Prime Minister Nakasone has pitted himself against other leaders of his own party who support an export surcharge. With businessmen siding with Nakasone, quantitative restraints stand a good chance of being implemented if the trade surplus continues to grow (see Table 2). 25X1

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TABLE 1

JAPAN: IMPORT PLANS OF TOP EXPORTERS

Company	1984 Exports (Billion US$)	1984 Imports (Million US$)	1985 Import Goal (Million US$)	Items To Be Purchased
Toyota	10.4	190	210	N.A.
Nissan	8.6	250	270	Supercomputer, auto parts
Matsushita	3.7	285	320	Aluminum ore, semiconductors, wood products
Sony	2.6	165	220	Helicopters, household appliances, cathode ray tubes
NEC	2.2	N.A.	N.A.	Semiconductor production equipment, local area network software
Mitsubishi Electric	1.9	240	360	Electronic parts

Top exporters who have not yet publicly revealed their import plans (with 1984 exports, in billion dollars, in parentheses) include: Honda (5.4), Hitachi (4.1), Mazda (4.0), Nippon Steel (3.8), Toshiba (2.5), Nippon Kokan (2.0), and Sanyo (2.0).

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TABLE 2

JAPAN: TRADE POLICY OPTIONS

Option	Proponents	Opponents	Comments
1. Export restraints on selected goods	-Prime Minister Nakasone -Keidanren President Inayama -Some LDP leaders, including Chief Cabinet Secretary Fujinami	-Many MITI and Foreign Ministry officials	**Implementation looks increasingly likely.** Prime Minister Nakasone demanding July action plan to state Japan will exercise export controls if current account surplus increases sharply. [redacted] 25X1 25X1
2. Administrative guidance to top exporters to boost imports	-Prime Minister Nakasone -Some MITI officials	-Business executives	**Already implemented** but projections suggest MITI will not realize original goal of $6-8 billion increase in imports by top exporters. The 60 companies involved will boost imports by 5.5 percent or $5 billion, MITI's revised target for the program. Companies, such as Nissan, criticize plan for ignoring profit motive. [redacted] 25X1 25X1
3. Emergency imports of aircraft, rare metals, and grain	-Prime Minister Nakasone	-Some EPA officials	**Action plan to include $3 billion in emergency imports,** according to press reports. [redacted] officials realize this--like past--emergency programs unlikely to have much impact on trade surplus. 25X1 25X1
4. Export surcharge	-Some Finance and EPA officials (but only as preemptive measure) -LDP leaders, including Secretary General Kanemaru and Policy Affairs Research Council Chairman Fujio	-MITI and Agriculture officials -Prime Minister Nakasone	**Unlikely except to preempt US import surcharge,** which EPA officials doubt will be enacted, [redacted] If applied across the board, surcharge would hurt exporters in depressed industries as well as vibrant sectors and thus would be politically unpopular. Bureaucrats also question surcharge's effectiveness given floating exchange rate system and worry export surge might precede implementation. Nonetheless, Finance Ministry reportedly studying a 1-2 percent tax on exports--to be earmarked for foreign aid--as part of 1986 budget planning process. [redacted] 25X1 25X1 25X1

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